

STATEMENT OF THE HONORABLE LANGHORNE M. BOND, FEDERAL AVIATION ADMINISTRATOR, BEFORE THE SENATE FINANCE COMMITTEE, CONCERNING FINANCING OF THE AIRPORT AND AIRWAY SYSTEM, SEPTEMBER 8, 1980.

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to appear before you today to discuss the Administration's position regarding the aviation user taxes needed to finance our Nation's airport and airway system through the Airport and Airway Trust Fund. With me today are Mort Downey, Assistant Secretary for Budget and Programs, Department of Transportation, and Robert Aaronson, FAA's Associate Administrator for Airports.

Mr. Chairman, there are two basic factors that we considered as we developed our aviation user tax proposals: Tax equity and Revenue needs. I would like to address both of these factors.

First, I want to touch on the subject of tax equity. I know the Members of the Committee deal with this subject on a daily basis. An equitable distribution of tax burdens is a fundamental tenet of our taxing system, and it should be. Yet, in the tax structure that has evolved to finance the needs of our airport and airway system, it seems to me that the notion of equity has fallen by the wayside. We need to correct that problem and the time to do so is now, when proposed legislation

to meet the future needs of our air transportation system is pending before the Congress. If we don't, the general taxpayer will continue to bear a disproportionate share of the tax burden.

When the original Airport and Airway Development Act of 1970 was enacted, there was a clear sentiment of the part of the Congress and the Executive Branch that the needs of the system should be largely financed by the users of the system. In fact, it is clear that the intent was to seek funding by the general taxpayer as a supplemental or stopgap measure if the revenues from the users were not sufficient to meet all the needs of the system.

It was only after a previous Administration failed to spend the amounts authorized by Congress for capital programs that the Congress amended the Act in 1971 to eliminate the provision allowing for substantial O&M funding from the Trust Fund. In 1976, Congress determined that the increasing burden on the general taxpayer and the sufficiency of funds in the Trust Fund mandated the partial reinstatement of O&M funding. These same factors argue even more persuasively today for increasing the amount of O&M funding allowed to be financed from the Trust Fund. I want to stress that we are seeking the financing of O&M costs from the Trust Fund only after the capital needs of

the system have been met. This approach is fully consistent with the original concept underlying the establishment of the Trust Fund. I might add that the failure in the past to reinstitute this approach has been the largest contributing factor to the growing Trust Fund surplus.

I want to emphasize that our proposal to increase Trust Fund financing of O&M is not a proposal to increase program levels, since FAA operating costs will be incurred whether they are funded from the Trust Fund or from the General Fund. Moreover, O&M contributes directly to system safety since a navigational aid or facility must be operated and maintained if it is to do any good.

The notion of tax equity is also consistent with the Administration's view that each class of system users should pay its fair share of the costs of operating and maintaining the Federal airport and airway system. Currently, aviation taxes collected from system users amount to about 56%, in the aggregate, of the costs allocable to civil aviation that are incurred by the FAA in equipping, operating, and maintaining the airport and airway system. The users of commercial air service are paying amounts equivalent to about 90% of the costs incurred by the FAA on their behalf, while the comparable figure for general aviation is in the range of 14 to 22%, depending on the assumptions used in allocating costs.

Our goal is a gradual increase in the overall cost recovery through a progressively higher level of tax collection from general aviation, and recovery from all users of an increasing portion of the FAA's costs of operating and maintaining the airway system. The increased cost recovery from general aviation would primarily arise from the conversion of the existing 7¢ per gallon tax on aviation fuel into a 10% "ad valorem" tax. This concept, set forth in the Administration bill, S.1582, is analogous to the domestic passenger ticket tax or freight waybill tax, both of which are based directly on a percentage of the cost of the service provided.

Enactment of our proposed tax changes along with our proposed program authorizations for operations and maintenance would increase the level of recovery from general aviation to about 24 to 44%, again depending on allocation assumptions. Though the general aviation users would still be paying a much smaller share of the FAA costs attributable to them than would the users of commercial air service, the gap would not be as great, and thus would represent more equitable treatment of all system users.

Let me take this opportunity to make clear that general aviation really does place demands on the system, and the growth rate of general aviation continues to exceed

substantially the growth rates of all other system users. For example, the fiscal year 1980 cost of equipping and operating our network of flight service stations, which is just one element of the services provided to general aviation users, is projected to be over \$120 million, yet the total amount of revenues collected from general aviation is estimated to be about \$83 million. We are going forward with a major capital improvement program for flight service stations that will enable us to keep pace with the demand for their services at a cost of \$495 million through fiscal year 1986. Additionally, general aviation planes are becoming increasingly sophisticated, are often used for business purposes, and are more and more frequently able to use the all-weather capability of the facilities purchased with Trust Fund revenues. As general aviation increases its utilization of our system, it is only fair that we increase its contribution to the financing of the system, and we strongly support tax changes to accomplish that end.

I would also like to stress that the user charge approach is not an idea whose time has come and gone. To the contrary, the House Budget Committee, in a report focusing on the fiscal year 1981 budget, stated that "It is the opinion of a majority of the Committee, in keeping with the aim of reducing future deficits and lowering the general tax burden, that wherever

possible government services which benefit particular groups or businesses in the economy be substantially supported by those beneficiaries rather than the general taxpayer." They recommended continuation of the existing 8 percent passenger tax and that the general aviation user class begin paying 50 percent of their share in fiscal year 1982. On the subject of increased general aviation taxes, the Committee stated: "As a matter of equity, an increase to 50 percent is recommended and strengthens the whole concept of users paying for the benefits they receive."

I'd like to turn now to the subject of meeting the revenue needs of the system. At the outset, we made determinations independent of the amount of money available in the Trust Fund as to the appropriate amounts to be spent over the next five years for aviation Research, Engineering and Development and for our capital programs of Airport Development Grants and for Facilities and Equipment. The five year program we have proposed would authorize nearly twice the expenditure that was authorized for the five years 1976 through 1980. We believe that our proposed funding levels will provide for the continued improvement of the airport and airway system.

Implicit in this discussion of revenue estimates is one other point that I'd like to emphasize. That is, that both the

current tax structure and the Administration's proposal generate sufficient revenues to finance substantial O&M without skimping on the capital programs financed from the Trust Fund. It is my understanding that all the legislation proposed for continuation of the Airport and Airway Trust Fund gives priority to funding airport grants, research and development, and capital investment before operations and maintenance are funded; thus there is no risk that safety needs will not be funded. O&M will be financed from the residual revenues over and above those used for grants, F&E, and R&D.

Another concern is selecting a tax package that will provide adequate revenues and also bring the Trust Fund into better balance. We believe that legislation should provide for reducing the Trust Fund balance to near zero without necessitating severe changes in tax collections or program expenditures. To accomplish this, we developed a proposal that we believed would result in a steady decline in the Trust Fund balance over the next ten years, but would leave a self-sustaining Trust Fund balance after the surplus is depleted. To attempt to draw the balance down more rapidly by substantial tax reductions would require major changes when the surplus is eliminated. Enactment of S. 1649, which proposes reducing the ticket tax from 8 to 2 percent, would bring the Trust Fund balance down quickly, but in the not too distant

future annual expenditures are estimated to be more than double the annual tax revenues. At that time, fiscal balance would require either tax increases or major decreases in program expenditures to provide continuity in the program. Moreover, the tax cut would preclude appropriate cost recovery from system users.

Let me be candid, however, and acknowledge that since the time the Administration bill was developed our estimates of future Trust Fund revenues have been revised upward as a result of escalating ticket prices, primarily due to higher fuel costs. We continue to believe in the basic approach we have proposed. If, however, revenues exceed expenditure levels, the excess should be directed to the operating and maintenance costs of the system fairly allocable to civil aviation. This will have the effect of controlling the Trust Fund surplus without increasing Federal expenditures and while establishing a more equitable system of financing the operation and maintenance of the airway system.

Lastly, I would like to emphasize the need for prompt action on aviation user taxes. Just this July, the Congress enacted and the President signed a 90 day extension of our present system of aviation user taxes. That extension will expire on

October 1, just 3 weeks from now, and we strongly support Congressional action before that time.

In closing, I would like to reiterate our support for aviation user tax legislation that will make this system of taxes more equitable both as to users generally and as to general aviation. S. 1649 would make it difficult to achieve those goals, and it would require major modifications in a fairly short time frame.

On the other hand, the proposal of the House Ways and Means Committee (H.R. 6721) is closer to our proposal than S. 1649, and we much prefer it to S. 1649. Should the Committee choose to use H.R. 6721 rather than the Administration bill as a mark-up vehicle, we would support amendments to that bill consistent with the positions we have set forth today.

Mr. Chairman, that concludes my prepared statement. We would be pleased to respond to any questions you may have.